

STATE OF WISCONSIN
DEPARTMENT OF HEALTH AND SOCIAL SERVICES
DIVISION OF MANAGEMENT SERVICES
BUREAU OF FISCAL SERVICES

ACCOUNTING POLICY

TOPIC: Audit 7.0	EFFECTIVE DATE: 1/23/84
TITLE: Payment of External Audit Disallowances	REVISION DATE: 10/31/92
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BACKGROUND

Because of its span of program and administrative authority, the Department is in the position of reviewing, reacting to, and settling disallowances from a variety of sources. These disallowances contain complexities that affect programs and funds administered by DHSS.

This policy is a result of a composite of recommendations from representatives throughout the program divisions, Office of Policy and Budget (OPB) and Division of Management Services (DMS).

OBJECTIVE

Disallowances must be implemented in a reasonable and efficient manner in accordance with the Department's financial stewardship responsibilities. This document outlines policies and procedures to be used in administering payment disallowances resulting from an independent audit by an external agency. The implementation of a disallowance should be reasonable and related to the specific disallowance issue or finding.

If there are valid reasons to question a proposed disallowance, it is the state's policy to make every effort to appeal the disallowance and minimize the effects on the state and local government. In addition, federal disallowances do not always fall within the realm of control of the state or local agency.

This policy statement has been developed to be used as a framework for disallowance issues facing the Department and local government. No written policy or procedure can cover every situation.

APPLICABILITY

This policy statement applies to fiscal disallowances after all reasonable appeals by the state have been exhausted.

Included

1. Disallowances by federal audit or federal program review applicable to local or state administered programs are covered.

2. Other independent or external audits that result in loss of federal or state funds are covered (e.g., audits of funds granted DHSS by another state agency).

Excluded

1. Audits performed by the Department are not covered. See **AUDIT 1.0 (Audit Liaison and Resolution--DHSS Organizations)**.
2. Quality Control or administrative disallowances applied by the Department are not covered (e.g., DES Income Maintenance, Quality Control and CRN identified errors for specific items such as eligibility, benefit or income factors). This policy and procedure is covered in the *IM Administration Manual*.

DEFINITIONS

Specific Disallowances. A disallowance based on a specific issue or failure by a specific state or county unit or contract/provider agency. The reason (or the compliance issue) and the responsible entity can be clearly identified.

Project Disallowance. A disallowance that represents a dollar sanction from a sample projected state or agency-wide. It is based on some formula or sampling technique. This methodology is sometimes used by the federal government as a disallowance policy.

POLICIES AND PROCEDURES

Specific Disallowances

1. The Department, at the earliest possible date, will give written notice to all affected counties or provider/contract agencies of the possible sanction and disallowance when it is known or suspected that a disallowance will be made. It is the Department's responsibility to file any appeals, but provision will be made for affected counties or agencies to have input.
2. When all state appeals have been exhausted or terminated, the Department will officially inform the local agency of the sanction or disallowance.
3. No current year state appropriations will be used to cover the disallowance without approval by the Department of Administration (DOA) and the Joint Committee on Finance (JFC). An agency incurring the disallowance shall pay the sanction.
4. A method and timing of payment shall be determined by the Department of Health and Social Services. The method shall take into account the total operating budget of the agency.

5. The local agency may appeal the decision on method and timing of payment to the Office of the Secretary.
6. If the local agency is required to make payment and refuses to do so, the Department shall collect the disallowance from future payments due the agency.

Projected Disallowances

1. The Department, at the earliest possible date, will give written notice to all provider/contract agencies or counties of the possible sanction and disallowance when it is known or suspected that a projected disallowance will be affecting agencies or counties. It is the Department's responsibility to file any appeals, but provisions will be made for affected counties or agencies to have input.
2. When all state appeals have been exhausted or terminated, the Department will officially inform all affected agencies of the sanction or disallowance.
3. In each instance, the Secretary's Office, upon recommendation by DMS and the program division(s) should establish a threshold for passing on a loss of federal funds to the local agencies.

All or a substantial portion of the sanction will be passed on to local agencies if the determined reason is within the control of local administration. The Secretary's Office shall designate a unit within DHSS to communicate the formal distribution of the disallowance and determine the cost or share of each county or provider agency.

Generally, the DMS should review the disallowance issue and funding implications and recommend a distribution method in conjunction with the affected program division. However, the Secretary may establish a committee including community or local agency representatives to recommend the distribution and payment method.

4. The affected agencies will be advised as to the distribution formulas planned to be used and will be allowed thirty (30) days for comment prior to application of disallowances.
5. An appeal may be made to the Secretary's Office.
6. After the above steps have been completed, the payment procedures will follow 3 through 6 under "Specific Disallowances."

Consideration of Ambiguous Policy

If a disallowance is alleged to be the result, in whole or in part, of ambiguous or "error prone" policy instructions from the state, the usual process for the disallowance shall occur with additional steps listed below:

The Secretary's Office may appoint a DHSS unit to establish a committee including local agencies to recommend the liability between the state and the local administration. Among the factors this committee may consider are the following:

1. Any sanction involved must exceed a threshold established by the Secretary, upon recommendation of DMS and the program Administrators, for passing the loss of federal funds to the local agency.
2. A formula for distribution of the disallowance shall be developed and approved by the Secretary's Office.

Department Liability From Audits

When it is determined that the Department is responsible for part or all of a disallowance, the following procedure shall take place.

1. The cost normally shall be assessed to the administrative unit (division) responsible for the disallowance.
2. When there is ambiguous or shared responsibility, the cost may be distributed. Generally, DMS shall recommend a distribution. Alternatively, the Secretary may establish an ad hoc committee to recommend the distribution.
3. If the disallowance is so large that the Secretary's Office determines there would be serious, undesirable side effects if it were paid entirely from the operating budget of the responsible administrative unit (division), the Department in its capacity as "single state agency" may seek to pay some or all of the disallowance from surpluses in other units' appropriations, pursuant to legislative approval.

REFERENCE

IM Administration Manual

AUDIT 1.0 (Audit Liaison and Resolution--DHSS Organizations)

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